

SIB Mission Statement and Fast Facts

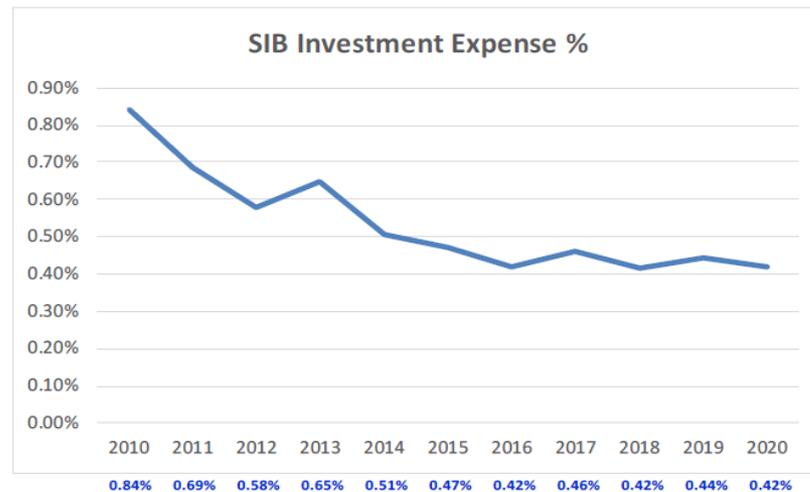
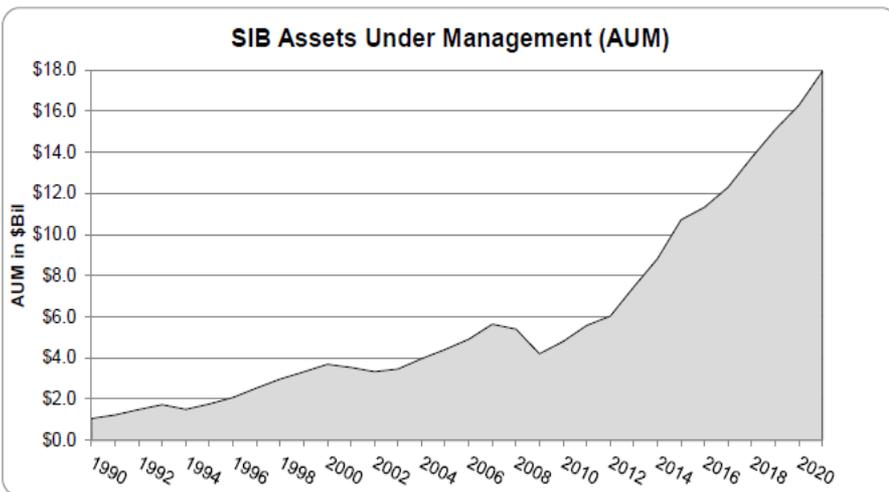
Updated as of November 30, 2020

Mission Statement: The Retirement and Investment Office (RIO) serves the State Investment Board (SIB) and exists in order that:

- 1) SIB clients receive investment returns, consistent with their written investment policies and market variables, in a cost effective investment manner and under the Prudent Investor Rule (as defined in NDCC 21-10-07 "Legal Investments").
- 2) Potential SIB clients have access to information regarding the services provided by the SIB.
- 3) SIB clients receive satisfactory services from our Board & RIO staff including TFFR, PERS, WSI and Legacy & Budget Stabilization Funds.

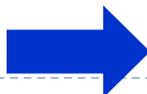
SIB Fast Facts:

- SIB client assets under management have more than tripled from \$5 billion in 2010 to over \$18 billion in 2020, while rising 35% since Jan. 1, 2019.
- SIB investment fees have significantly declined from 0.84% in 2010 to less than 0.45% in 2020.
- The SIB's keen focus on fees is saving our clients over \$20 million per year in lower costs which increases client net investment income.
- The SIB's prudent use of active investment management has generated over \$300 million of incremental income for our clients in the last 5-years.
- SIB client investment performance compares favorably with our peers including U.S. public pension plans and larger sovereign wealth funds.
- The SIB pension investment pool, which includes TFFR and PERS, returns are ranked in the top 25% of U.S. public funds in the last 10-years.
- North Dakota Legacy Fund returns are comparable to other Sovereign Wealth Funds since 2015 and favorable in more recent periods (see below).
- Actual net investment returns for 99% of our SIB clients have exceeded approved performance benchmarks for the 5-years ended Sep. 30, 2020.
- The SIB regularly accepts new investment clients such as the Office of the Attorney General and Veterans' Cemetery Trust Fund in recent years.
- SIB client satisfaction scores range from 3.4 to 3.7 in recent years (on 4.0 scale with 4 = Excellent, 3 = Above Average, 2 = Average and 1 = Poor).



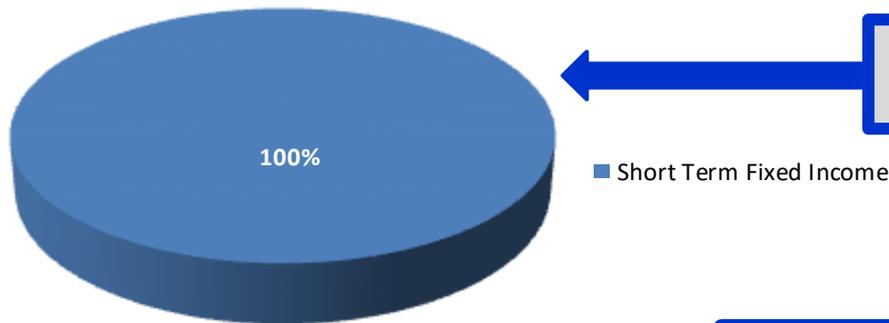
Sovereign Wealth Fund Returns		Fund Size	Fiscal Year Ended June 30, 2020			Date of	Fiscal YTD
Fund Name / Fund Size at Nov. 30, 2020		(billions)	1-year	5-years	Inception	Inception	Nov. 30, 2020
Alaska Permanent Fund (Largest U.S. SWF)	\$ 71.9		2.01%	6.44%	8.60%	7/1/1980	10.78%
Source: https://apfc.org/report-archive/							
North Dakota Legacy Fund	\$ 7.9		4.23%	5.91%	4.76%	9/7/2011	11.06%
Source: https://www.rio.nd.gov/legacy-fund							
Norway Government Pension Fund (#1 Global)	\$ 1,078.0		3.17%	5.41%	5.79%	1/1/1998	n/a
Source: https://www.nbim.no/en/the-fund/returns/							

Note: The Legacy Fund was invested in 100% short-term fixed income prior to August 1, 2013. Since inception returns were 5.19% as of 9/30/2020.



Legacy Fund Strategic Asset Allocation

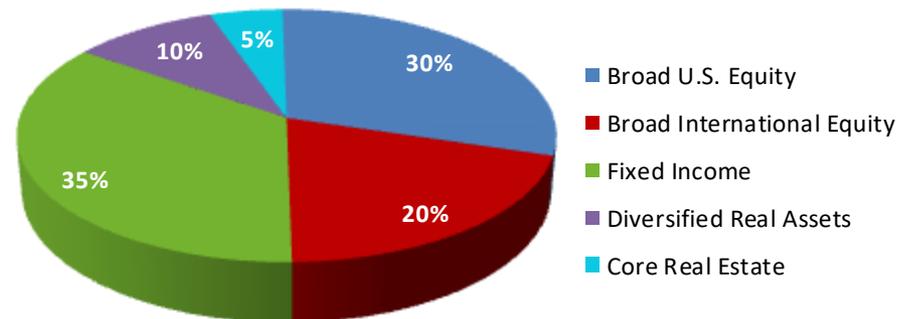
Actual Allocation
8/1/2013



Asset allocation is the primary driver of long-term investment returns.

Policy Allocation

January 31, 2015 to Current



Transition completion
January 2015

NORTH DAKOTA LEGACY FUND INVESTMENT POLICY STATEMENT

The Legacy Fund Investment Policy Statement was last reviewed and approved by the Advisory Board on **November 12, 2020**, for accuracy and completeness.

1. PLAN CHARACTERISTICS AND FUND CONSTRAINTS

The North Dakota legacy fund was created in 2010 when the voters of North Dakota approved a constitutional amendment--now Article X, Section 26, of the Constitution of North Dakota--to provide that 30 percent of oil and gas gross production and oil extraction taxes on oil and gas produced after June 30, 2011, be transferred to the legacy fund. The principal and earnings of the legacy fund may not be spent until after June 30, 2017, and any expenditure of principal after that date requires a vote of at least two-thirds of the members elected to each house of the Legislative Assembly. Not more than 15 percent of the principal of the legacy fund may be spent during a biennium. The Legislative Assembly may transfer funds from any source to the legacy fund, and such transfers become part of the principal of the fund. The State Investment Board (SIB) is responsible for investment of the principal of the legacy fund. Interest earnings accruing after June 30, 2017, are transferred to the general fund at the end of each biennium. North Dakota Century Code Section 21-10-11 provides that the goal of investment for the legacy fund is principal preservation while maximizing total return.

2. FUND MISSION

The legacy fund was created, in part, due to the recognition that state revenue from the oil and gas industry will be derived over a finite timeframe. The legacy fund defers the recognition of 30 percent of this revenue for the benefit of future generations. The primary mission of the legacy fund is to preserve the real inflation-adjusted purchasing power of the money deposited into the fund while maximizing total return.

3. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD

The Legacy and Budget Stabilization Fund Advisory Board (the "Advisory Board") is charged by law under Section 21-10-11 with the responsibility of recommending policies on investment goals and asset allocation of the legacy fund. The SIB is charged with implementing policies and asset allocation and investing the assets of the legacy fund in the manner provided in Section 21-10-07--the prudent institutional investor rule. The fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income.

Management responsibility for the investment program not assigned to the SIB in Chapter 21-10 is hereby delegated to the SIB, which must establish written policies for the operation of the investment program consistent with this investment policy.

The SIB may delegate investment responsibility to professional money managers, which are also required to employ investment strategies consistent with the investment policy. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory not advisory.

At the discretion of the SIB, the fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in the pool.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, retaining, and terminating money managers. The SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB shall notify the Advisory Board within 30 days of any substantial or notable changes in money managers; performance measurement services; and consultants, including hiring or terminating a money manager, performance measurement service, or a consultant.

The SIB, after consultation with the board, will implement necessary changes to this policy in an efficient and prudent manner.

4. RISK TOLERANCE

The Advisory Board's risk tolerance with respect to the primary aspect of the legacy fund's mission is low. The Advisory Board is unwilling to undertake investment strategies that might jeopardize the ability of the legacy fund to maintain principal value over time. The Advisory Board recognizes that the plan will evolve as the legacy fund matures and economic conditions and opportunities change.

5. INVESTMENT OBJECTIVES

The Advisory Board's investment objectives are expressed in terms of reward and risk expectations relative to investable, passive benchmarks. The legacy fund's policy benchmark is comprised of policy mix weights of appropriate asset class benchmarks as set by the SIB:

- a. The legacy fund's rate of return, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.
- b. The legacy fund's risk, measured by the standard deviation of net returns, should not exceed 115 percent of the policy benchmark over a minimum evaluation period of five years.
- c. The risk-adjusted performance of the legacy fund, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.

6. POLICY ASSET MIX

After consideration of all the inputs and a discussion of its own collective risk tolerance, the Advisory Board approved the following policy asset mix for the Legacy Fund as of April 2, 2013. The Advisory Board and SIB re-affirmed this same asset allocation policy on May 24 and 25 of 2018. Rebalancing of the fund to these targets will be done in accordance with the SIB's rebalancing policy, but not less than annually.

Asset Class	Policy Target Percentage
Broad US Equity	30%
Broad International Equity	20%
Fixed Income and BND CD	35%
Core Real Estate	5%
Diversified Real Assets	10%



The SIB approved an 18-month implementation strategy which was completed in January of 2015. On June 17, 2017, the Advisory Board acknowledged the transfer of the Bank of North Dakota Match Loan Certificates of Deposit Program (“BND CD”) to the Legacy Fund in early-2017 (representing a sector allocation within Fixed Income). On August 23, 2019, the SIB increased its commitment to the BND CD investment program by \$100 million for a total commitment of \$300 million. On December 3, 2019, the Advisory Board approved this change in the Legacy Fund’s asset allocation without exception. **BND will be requested to guarantee a minimum investment return. This minimum return requirement will be periodically reviewed in connection with Legacy Fund’s overall asset allocation framework. On October 25, 2019, S&P affirmed BND’s Issuer Credit Rating as A+ (Long-Term) and A-I+ (Short-Term) with a “Stable” Outlook. On September 25, 2020, the SIB approved a \$100 million increase in the commitment to BND’s In-State Investment Program raising the total commitment up to \$400 million.**

NOTE: The Advisory Board formally approved the increasing the Legacy Funds commitment to the BND In-State Investment Program up to \$400 million on November 12, 2020, representing a target 5% allocation.



7. RESTRICTIONS

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the legacy fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.
- c. No transaction may be made that would threaten the tax-exempt status of the legacy fund.
- d. All assets will be held in custody by the SIB’s master custodian or such other custodians as are acceptable to the SIB.
- e. No unhedged short sales or speculative margin purchases may be made.
- f. Social investing is prohibited unless it meets the exclusive benefit rule, and it can be substantiated that the investment provides an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk. For the purpose of this document, social investing is defined as the consideration of socially responsible criteria in the investment or commitment of public fund money for the purpose of obtaining an effect other than a maximized return to the Fund.
- g. Economically targeted investing is prohibited unless the investment meets the exclusive benefit rule.

For the purpose of this document, economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy. Also, for the purpose of this document, the exclusive benefit rule is met if the following four conditions are satisfied:

- The cost does not exceed the fair market value at the time of investment.
- The investment provides the legacy fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- Sufficient liquidity is maintained in the legacy fund to permit distributions in accordance with the terms of the plan.
- The safeguards and diversity that a prudent investor would adhere to are present.
- Where investment characteristics, including yield, risk, and liquidity, are equivalent, the Advisory Board's policy favors investments which will have a positive impact on the economy of North Dakota.

8. INTERNAL CONTROLS

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for investment manager selection and monitoring. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions, and compliance with the investment policy.

9. EVALUATION AND REVIEW

Investment management of the legacy fund will be evaluated against the fund's investment objectives and investment performance standards. Emphasis will be placed on 5-year and 10-year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the investment policy statement for achieving those objectives.

Performance reports will be provided to the Advisory Board periodically, but not less than quarterly. Such reports will include asset returns and allocation data. Additionally, not less than annually, reports will include information regarding all significant and/or material matters and changes pertaining to the investment of the legacy fund, including:

- Changes in asset class portfolio structures, tactical approaches, and market values.
- Loss of principal, if any.
- Management costs associated with various types of investments.
- All material legal or legislative proceedings affecting the SIB.
- Compliance with this investment policy statement.
- An evaluation of the national economic climate.
- A forecast of the expected economic opportunities and dangers.
- Management of risk by the SIB.

In addition to the quarterly and annual evaluation and review process, the SIB shall notify the Advisory Board within 30 days of any substantial or notable deviation from the normal management of the legacy fund, including any anomalies, notable losses, gains, or liquidation of assets affecting the fund.

RIO is available to assist the Advisory Board establish separate formal governance policies, if so directed.

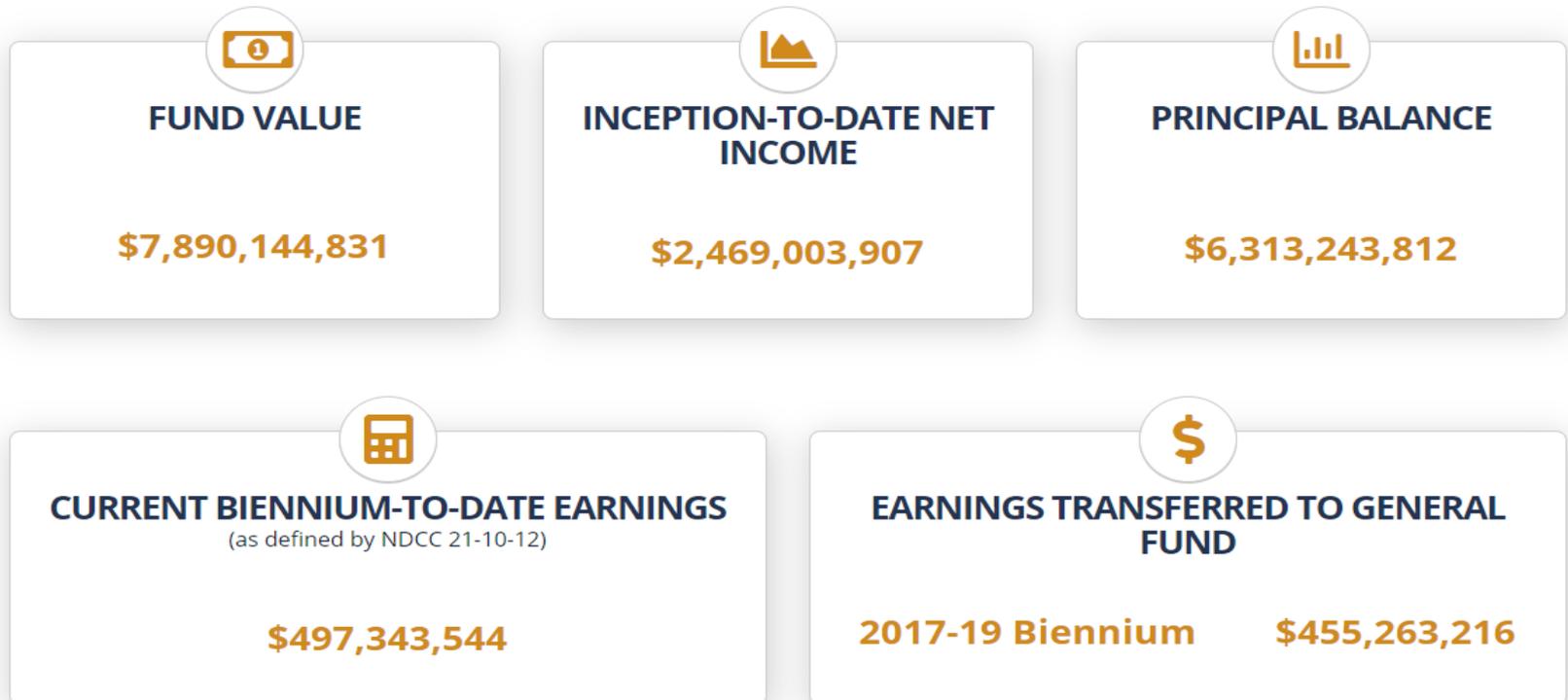
North Dakota Retirement and Investment Office - Legacy Fund Website

<https://www.rio.nd.gov/legacy-fund> 

Legacy Fund

The Legacy Fund was created by a constitutional amendment in 2010. The amendment provides that 30% of oil and gas gross production and oil extraction taxes on oil produced after June 30, 2011, be transferred to the Legacy Fund. The State Investment Board (SIB) is responsible for the investment of the fund. The first Legacy Fund transfer was received by the SIB in September 2011. The ND Constitution also requires that all earnings accrued after June 30, 2017, must be transferred to the state's general fund at the end of each biennium.

Balances listed below as of November 30, 2020.



****PLEASE NOTE: Monthly numbers are preliminary and subject to change.**

Legacy Fund

Actual Allocations are within 1% to 2% of Target at Dec. 31, 2020

LEGACY FUND INVESTMENT PERFORMANCE REPORT AS OF DECEMBER 31, 2020												
	December-20				September-20				Current FYTD	Prior Year FY20	3 Years Ended	5 Years Ended
	Allocation		Quarter		Allocation		Quarter		Returns	Returns	6/30/2020	6/30/2020
	Market Value	Actual	Policy	Net	Market Value	Actual	Policy	Net	Net	Net	Net	Net
TOTAL LEGACY FUND	8,160,014,967	100%	100%	9.0%	7,400,446,901	100%	100%	4.93%	14.4%	4.23%	5.58%	5.91%
<i>POLICY TARGET BENCHMARK</i>				9.0%				3.95%	13.3%	4.38%	5.67%	5.55%
TOTAL RELATIVE RETURN				0.0%				0.98%	1.1%	-0.15%	-0.08%	0.36%
GLOBAL EQUITY	4,202,904,222	51.5%	50%	16.0%	3,778,619,798	51.1%	50%	8.42%	25.8%	0.70%		
GLOBAL FIXED INCOME	2,764,119,570	33.9%	35%	2.0%	2,505,727,543	33.9%	35%	1.55%	3.6%	7.74%	5.89%	5.52%
GLOBAL REAL ASSETS	1,127,690,479	13.8%	15%	2.0%	1,043,978,191	14.1%	15%	1.38%	3.4%	5.52%		
TOTAL CASH EQUIVALENTS	65,300,695	0.8%	0%	0.02%	72,121,369	1.0%	0%	0.02%	0.03%	1.34%	1.57%	1.05%

Initial funding September 7, 2011.
NOTE: Monthly returns and market values are preliminary and subject to change.

Note: Amounts are preliminary, unaudited and subject to change.

- The Legacy Fund market value increased to \$8.1 billion as of 12/31/2020 from \$7.4 billion at 9/30/2020 due to a net return of 9.0% for the quarter including a 16% net return in global public equity.
- The Legacy Fund generated a Net Investment Return 14.4% for the six months ended 12/31/2020 driven by a near 26% rise in Global Equity, 3.6% return in Global Fixed Income and 3.4% return in Global Real Assets.

ADVISORY BOARD ACTION REQUESTED

TO: Legacy and Budget Stabilization Fund Advisory Board
FROM: Dave Hunter and Darren Schulz
DATE: January 29, 2021
SUBJECT: RIO's In-State Investment Asset Allocation Study Recommendation

SIB In-State Investment History:

The SIB and Advisory Board have supported in state investment opportunities since their inception. As example, the BND Match Loan CD program, which supports cost efficient financing to businesses looking to start or expand their operations in North Dakota, was raised to a record high \$400 million commitment level in late-2020, while the Legacy's other investments earned over \$2.4 billion of net investment income for North Dakota in the last 9 years.

Recent SIB and Advisory Board actions to allocate committed capital to support in state investments have kept pace with growth of the Legacy Fund and represent a target 5% allocation in 2020.

Given recent SIB and Advisory Board discussions, RIO recommends the Advisory Board consider two questions:

- 1) Determine if the Advisory Board seeks to expand the "in state investment platform" by allowing private market investments; and if so
- 2) Seek to retain a qualified outside firm to conduct an asset allocation study with the purpose of evaluating a potential addition of "private equity" to the Legacy Fund's strategic asset allocation policy.

Based on the State Investment Board's current research on in-state investing, it is very likely that private equity would be one of the primary asset classes into which potential in-state investments would be allocated. However, an asset

allocation study is required to determine the impact of a new private equity program on the Legacy Fund's long-term expected returns, risk profile and needs for liquidity.

Phase One of the Asset Allocation Study will look at optimized asset class projections only and will measure the impact of adding private equity to the Legacy Fund's expected return and risk levels. (1-2 weeks)

Phase Two of the Asset Allocation Study will integrate projections of assets, expected contributions, and targeted spending to measure the range of the Legacy Fund's future financial position. This phase of the analysis will be similar to the asset-liability study conducted by Callan for the Legacy Fund in early-2018. The Phase Two study will use the asset mixes identified in Phase One but will add dollar-measured outcomes that incorporate expected contributions based on oil tax revenues and spending based on projected principal and earnings of the Legacy Fund. (6-7 weeks)

These recommendations seek alignment with recent SIB discussions and serve to harmonize our joint efforts in a professional, diligent and cost efficient manner.

Bank of North Dakota (BND) In-State Investment Program Background and Update:

The BND Match Loan CD Program was established nearly 30 years ago and the SIB and Advisory Board have supported this important in state investment program since their inceptions. In recent years, both boards have approved two Bank of North Dakota (BND) requests to increase the Match Loan CD Program, which enhances BND's ability to offer cost-efficient financing for companies seeking to develop or expand new business opportunities within the State and provide a direct benefit to our local economy. **These two board actions increased the Legacy Fund in-state investment program commitment from \$200 million to \$300 million in August of 2019 and to a record high of \$400 million in late-2020.** RIO understands that BND has a significant pipeline of new loan activity under consideration which prompted BND's two most recent requests for additional committed capital.

RIO has consistently worked to support BND's requested increases to the "In-State Investment Program" in recent years to coincide with Legacy Fund's strong overall growth, but only after significant internal staff discussion, due diligence and consultation with Callan. RIO also engages with large fixed income investment firms to obtain indicative

pricing spreads for BND CD's to like-term U.S. Treasuries. After confirming indicative credit spreads and return levels on BND CD's (with fixed rate terms of up to 10-years), RIO gained reasonable assurance the most recently approved program terms and pricing remain in adherence to the "prudent investor rule". **The SIB and RIO consistently strive to meet the requirements of Legal Investments as defined by NDCC 21-10-07, including the "prudent investor rule".**

Key Milestones to Expand Legacy Fund In-State Investment Program:

- Sep. 25, 2020** - SIB raises Legacy Fund In-State Investment Program Commitment to \$400 million
- Oct. 23, 2020** - Callan, Barings, Commerce, Grosvenor and Hamilton Lane share their insight, background and experience in expanding SIB's existing in-state investment program
- Nov. 20, 2020** - Callan, RIO and SWIB In-State Portfolio Manager highlight common elements of other mature in-state investment programs in private equity, venture capital and private credit
 - Mosaic Governance Advisors reviews key factors when *"Constructing Prudent Due Diligence When Considering an In-State Investment Program"*
- Jan. 22, 2021** - RIO outlines key considerations to expand the Legacy Fund In-State Investment Program
 - Callan and RIO review recent in-state investment survey results and propose a timeline to advance an "In-State Investment Program" for review and approval by the Advisory Board
- Jan. 29, 2021** - RIO recommends the Advisory Board engage Callan to conduct an asset allocation study to evaluate the impact of including a target allocation to private equity by February 12, 2021; and
 - Acknowledge the SIB will seek to engage Callan to identify at least one private equity firm with expert, institutional experience within "in-state private equity programs" by March 26, 2021
- Feb. 12, 2021** - Callan to present the results of their asset allocation study including the recommended options to expand the Legacy Fund in-state investment program in the private markets. RIO will seek to incorporate the recommended changes into a new Legacy Fund investment policy statement

Feb. 26, 2021 - RIO will seek SIB approval of Legacy Fund's revised investment policy statement including any asset allocation changes to add a new private markets in-state investment program

Mar. 26, 2021 - Callan and RIO will advance at least one investment management firm with expert, institutional experience in implementing a new in-state investment program in the private markets

Callan In-State Investment Program Research of Other U.S. Public Funds:

Callan previously provided a comprehensive list of 23 in-state investment programs in 16 other states ranging in size from \$50 million in Colorado and Nevada and up to roughly \$1 billion in larger states like California, Florida, New Mexico, New York and Texas. Although the dollar value of the programs varied widely, they generally represented less than 3% of the underlying investment fund.

Callan also highlighted programs in states like Alaska, Connecticut, Nevada, New Mexico and Oregon with state economies being more closely comparable to North Dakota's in terms of size and structure (with GDP ranging from \$54 to \$287 billion). Amounts invested within this group ranged from \$50 million to \$360 million based on Callan's research. Most of these programs invested in multiple asset classes, though the primary focus is venture capital and growth equity, noting that these two strategies are expected to be the most effective in driving job creation and economic development. Implementation has been through a combination of private equity fund commitments and co-investments, although each state uses different guidelines for which types of businesses the programs intend to target. Most of these programs are designed to support businesses in the state, although Connecticut and Oregon's are regional. Investment outcomes across these state programs has varied from satisfactory to disappointing.

RIO In-State Investment Program Recommendation:

If the Advisory Board desires to consider expanding the "in state investment platform" by including private market investments, RIO recommends the Advisory Board engage Callan to conduct an asset allocation study with the purpose of evaluating a potential addition of "private equity" to the Legacy Fund's strategic asset allocation policy. Callan indicates that Phase I of this next step can be completed in two weeks.

ND Legacy Fund

Summary of Deposits, Earnings and Net Position

As of November 30, 2020

	Deposits	Withdrawals	Total Net Earnings	Ending Net Position	Earnings as defined in NDCC 21-10-12
FY2012	396,585,658	-	2,300,225	398,885,883	2,571,475
FY2013	791,126,479	-	4,216,026	1,194,228,388	15,949,089
FY2014	907,214,971	-	113,153,662	2,214,597,021	50,033,655
FY2015	1,011,343,040	-	99,895,650	3,325,835,711	95,143,905
FY2016	434,853,950	-	45,851,680	3,806,541,341	65,326,673
FY2017	399,501,134	-	479,595,256	4,685,637,731	207,814,875
Totals	3,940,625,232	-	745,012,499	4,685,637,731	436,839,672

All earnings prior to 7/1/2017 became part of principal.

FY2018	529,870,755		360,575,532	5,576,084,018	242,859,840
FY2019 *	628,610,681		53,186,743	6,257,881,442	212,403,376
Earnings transferred 7/23/19 for 2017-19 biennium					455,263,216

June, 2019	63,958,262	(455,263,216)	255,651,383	6,122,227,871	46,980,140
FY2020	596,589,041	-	276,492,158	6,995,309,070	253,723,766
FY2021 **	116,750,169	-	778,085,592	7,890,144,831	196,639,638
Earnings transferrable at end of 2019-21 biennium					497,343,544

Life-to-date Totals	5,876,404,140	(455,263,216)	2,469,003,907	7,890,144,831	1,389,446,432
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POMV Base	5,437,160,006
6%	\$ 326,229,600
7%	\$ 380,601,200
8%	\$ 434,972,800